

Message Text

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ACTION AGR-08

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PASS AGRICULTURE FOR ASCS--GLEN WEIR

E.O. 11652: N/A

TAGS: ETRD, EEC

SUBJECT: US-EC DAIRY TALKS

REF: EC BRUSSELS 225

1. SUMMARY: US/EC TECHNICAL DISCUSSIONS PROVIDED A PICTURE OF THE DAIRY SITUATION IN BOTH THE US AND THE EC. SPECIFIC ATTENTION WAS GIVEN TO PRICE LEVELS ON THE US MARKET OF SEVEN CHEESE TYPES EXPORTED BY THE EC. THE COMMISSION EXPRESSED ITS CONCERN THAT A SOLUTION TO THE PRESENT PROBLEM BE FOUND QUICKLY, STRESSING THE PRESSURE TO REIMPOSE RESTITUTION PAYMENTS. THE MEETING PROVIDED A TECHNICAL BASIS FOR FURTHER DISCUSSIONS AT POLICY LEVEL.
END SUMMARY.

2. US AND EC COMMISSION OFFICIALS HELD FULL-DAY TECHNICAL DISCUSSIONS ON THE DAIRY ISSUE JANUARY 15 THE COMMISSION TEAM WAS HEADED BY PIERRE MALVE, DIRECTOR FOR INTERNATIONAL AGRICULTURAL AFFAIRS, AND INCLUDED OTHER OFFICIALS
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FROM BOTH THE AGRICULTURAL AND EXTERNAL RELATIONS DIRECTORATES

GENERAL. THE COMMISSION REPRESENTATIVES BEGAN WITH A GENERAL OVERVIEW OF THE CHEESE PROBLEM AND STRESSED THAT THEY WERE UNDER STRONG PRESSURE FROM MEMBER STATES FOR A REINSTITUTION OF THE EXPORT RESTITUTIONS THAT THE EC BELIEVES IT NEEDS TO MAINTAIN ITS SHARE OF THE US MARKET. THEY DESCRIBED AN AGRICULTURAL TRADE IMBALANCE BETWEEN THE US AND THE EC, AND THE NEED TO EXPLORE THE PRICE COMPETITION PICTURE IN THE US WITH REGARD TO SEVERAL CHEESE CATEGORIES.

3. THE US SIDE PROVIDED AN OVERVIEW OF THE CURRENT DAIRY SITUATION AND THE OUTLOOK FOR THE REST OF 1975. IT DESCRIBED THE RECENT INCREASE IN MILK SUPPORT PRICE LEVELS, THE US GOVERNMENT'S SUPPORT PURCHASE OF DAIRY PRODUCTS, AND THE RECENT DECISION COMMITTING 175 MILLION POUNDS OF NON-FAT DRIED MILK TO THE PL 480 PROGRAM. THE COMMISSION OFFICIALS NOTED THAT THE SITUATION AND OUTLOOK WITHIN THE COMMUNITY AND THE US WERE ESSENTIALLY PARALLEL.

4. MALVE THEN MOVED TO A DISCUSSION OF PRICE AND MARKET CONDITIONS FOR INDIVIDUAL CHEESES. HE PREFACED THIS DISCUSSION BY REITERATING THAT THERE WAS STRONG PRESSURE FROM MEMBER STATES FOR REINSTITUTION OF EXPORT RESTITUTIONS; IMPLIED THAT THE COMMISSION MIGHT HAVE TO YIELD TO THIS PRESSURE; AND FURTHER IMPLIED THAT IF IT DID, IT WOULD SEEK TO SET THE RESTITUTIONS, AND HENCE THE PRICES OF EC CHEESES, AT LEVELS WHICH WOULD NOT DISTURB THE US MARKET. ANDERSON RESPONDED BY NOTING THAT THE US COUNTERVAILING DUTY STATUTE DOES NOT TAKE ACCOUNT OF PRICE LEVELS AND THAT INJURY IS NOT A NECESSARY CONDITION FOR APPLICATION OF COUNTERVAILING DUTIES. BOTH SIDES THEN AGREED THAT SUCH POINTS SHOULD BE RESERVED FOR SUBSEQUENT POLICY LEVEL DISCUSSION, AND PROCEEDED TO A REVIEW OF THE SITUATION WITH REGARD TO SEVEN CHEESES IN WHICH THE EC HAS A PARTICULAR INTEREST, WITHOUT MAKING ANY COMMITMENTS AS TO THE SIGNIFICANCE OF THE INFORMATION THAT WAS EXCHANGED. THE SEVEN CHEESE WERE EMMENTHALER, PARMESAN, PECORINO, PROVOLONE, CHEDDAR, GOUDA, AND BLUE MOLD. THE DISCUSSION, WHICH OCCUPIED THE MAJOR PORTION OF THE MEETING, CENTERED PRIMARILY ON WHOLESALE PRICE SHIFTS LIMITED OFFICIAL USE

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ON THE NEW YORK MARKET AND A COMPARISON OF PRICES OF US AND EC CHEESES. THE EC STRESSED THAT THEY HAD RECENTLY BEGUN INTERVENTION IN ITALIAN PARMESAN FOR THE FIRST TIME, AND WERE ALSO AT PRESENT MAKING PRIVATE STORAGE PAYMENTS FOR EMMENTHALER. (A FULL SEPARATE REPORT ON THE PRICE DISCUSSION IS BEING PREPARED.)

5. IN SUMMATION, MALVE MADE THE FOLLOWING POINTS. HE

BELIEVED THAT THE DISCUSSIONS WERE USEFUL IN HELPING ESTABLISH BASIC TECHNICAL UNDERSTANDING ON WHICH LATER POLICY DISCUSSIONS COULD BE BASED. HE NOTED THAT US AND EC OBJECTIVES WERE PARALLEL, INTENDING THROUGH DIFFERENT POLICIES TO PRESERVE DOMESTIC PRODUCTION. HE STRESSED THE IMPORTANCE OF A CLOSE OBSERVATION OF TRADE CONDITIONS AND OF THE DIFFERENCES BETWEEN INDIVIDUAL PRODUCTS (ESPECIALLY BETWEEN SPECIALTY AND "INDUSTRIAL" CHEESE) AND BETWEEN IMPORTED AND DOMESTIC PRODUCTS. HE SAID THE EC BELIEVED THAT IMPORTED PRODUCTS SHOULD BE OFFERED AT A "FAIR" PRICE, TAKING INTO ACCOUNT PRICES IN DOMESTIC MARKET, BUT HE NOTED THE GAP BETWEEN THE TWO SETS OF PRICES VARIED BY PRODUCT. HE EXPRESSED THE VIEW THAT EC PRICES SHOULD BE HIGH ENOUGH TO AVOID DISTURBING THE US MARKET, AND YET SOME FLEXIBILITY IN PRICING SHOULD BE RETAINED. AT ONE POINT HE SEEMED TO BE SEEKING THE US VIEW ON WHAT KIND OF PRICE RELATIONSHIP WAS ACCEPTABLE BETWEEN DOMESTIC AND FOREIGN CHEESES, BUT THE US SIDE RESPONDED THAT SUCH A DISCUSSION WAS BEYOND THE SCOPE OF TECHNICAL TALKS. MALVE ALSO EXPRESSED EC CONCERN OVER THE TRADE PRACTICES OF OTHER COUNTRIES EXPORTING TO US AND SUGGESTED THAT THE EC HAD TRIED TO MAINTAIN PRICE LEVELS WHICH GAVE A PREFERENCE TO US DOMESTIC PRODUCTS WHILE OTHERS HAD NOT DONE THIS. HE AGAIN EXPRESSED THE SERIOUS INTEREST OF THE EC IN REACHING A SOLUTION TO THIS PROBLEM AND THE INTENTION TO BUILD UPON THE UNDERSTANDING ACHIEVED AT THIS MEETING.

6. THE US SIDE PRESSED FOR FURTHER INFORMATION ON THE EFFECT ON TRADE OF THE CURRENT SUSPENSION OF THE RESTITUTION PAYMENTS. IN ADDITION, IT POINTED OUT THAT FURTHER WORK NEEDED TO BE DONE IN THE AREAS OF QUALITY DIFFERENTIATION IN THE CONTEXT OF THE US MARKET PRICE DISCUSSIONS.
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7. COMMENT: THE COMMISSION SIDE SEEMED PLEASED WITH THE MEETING. THE US SIDE TOOK CARE TO HOLD THE TALKS TO TECHNICAL LEVEL. WE BELIEVE THAT THE INFORMATION BROUGHT OUT AND THE TONE SET IN THIS MEETING WILL PROVIDE A GOOD INTRODUCTION FOR SUBSEQUENT DISCUSSIONS AT THE POLICY LEVEL. GREENWALD

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